



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

December 10, 2003

Board of Supervisors
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First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

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Fourth District

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Fifth District

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE BUDGET UPDATE

Los Angeles County's Fiscal Year 2003-04 Vehicle License Fee Loss

Now that local governments are receiving reduced Vehicle License Fee (VLF) payments from the State, we have been asked to estimate how much the County could lose in revenue and what the potential impact might be on the County budget.

If this were a normal year, the County could count on receiving \$1.1 billion from a combination of VLF collections and State backfill. But this is not a normal year and the amount of VLF that the County receives is shrinking on a monthly basis.

One of the central elements of last year's State budget solution was the suspension of the local government backfill during August, September and October while the State implemented a VLF rate increase effective October 1, 2003. In recognition of the fact that the foregone backfill was owed to local governments during these months when the State could not afford it, the foregone revenue was declared to be a loan to the State that will be repaid in 2006. Los Angeles County's share of that loan is \$160 million. The County's adopted budget already assumes the loss of this money in the current year.

When the Governor rolled back the VLF increase by executive order on November 17, 2003, declaring the original increase to have been in error, it created two problems. Because the Legislature assumed the VLF rate would increase, it did not

provide an appropriation for the backfill. As a result, local governments no longer receive the revenue from the rate increase or the equivalent backfill to replace it, causing local governments' monthly VLF revenue to drop by about two-thirds. The Governor insists that the Legislature should appropriate the backfill. The Legislature insists that he show them how the State can afford the \$1.8 billion it would cost to do so this year.

The second problem created by the Governor's action is that by, in effect, rolling back the VLF rate increase retroactive to October 1, 2003 car owners who paid the higher rate are now owed a rebate. The DMV, on December 8, 2003, announced that they intend to finance the rebate by withholding the entire VLF collections of local governments – the remaining one-third – in January, February, (and March if necessary). The actual amount that will be withheld from each jurisdiction depends on the revenue each received due to the higher rate in November and December.

The estimated impact on the County from all of the above actions, ***assuming the Legislature fails to backfill the revenue loss from the VLF reduction***, is the following:

Discretionary Gap Loss/Loan: Aug-Oct	\$160 million*
Discretionary Revenue/Backfill Loss: Nov-July**	\$318 million
Realignment Revenue/Backfill Loss: Nov-July**	\$257 million
Total	\$735 million

* To be repaid in 2006

** June collections, July payment

As noted above, the \$160 million loan has already been taken into account in the Adopted Budget. The remaining \$575 million would require a revision of the Adopted Budget and necessitate major reductions in County spending. The attached pie chart shows the County's flexible costs or discretionary spending of \$1.4 billion under the Adopted Budget. A \$575 million loss represents 40 percent of the County's discretionary spending. Given a loss of this magnitude, all of the departments receiving discretionary funds would be affected and public safety departments, which receive 36 percent of those funds, would be affected the most.

The County is losing approximately \$63 million every month that the State fails to pay the VLF backfill. If the State does not resume payment of the backfill by January 1, 2004, I will propose a budget adjustment to the Board, in January 2004, to reflect the loss of these funds.

Each Supervisor
December 10, 2003
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We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

Attachment

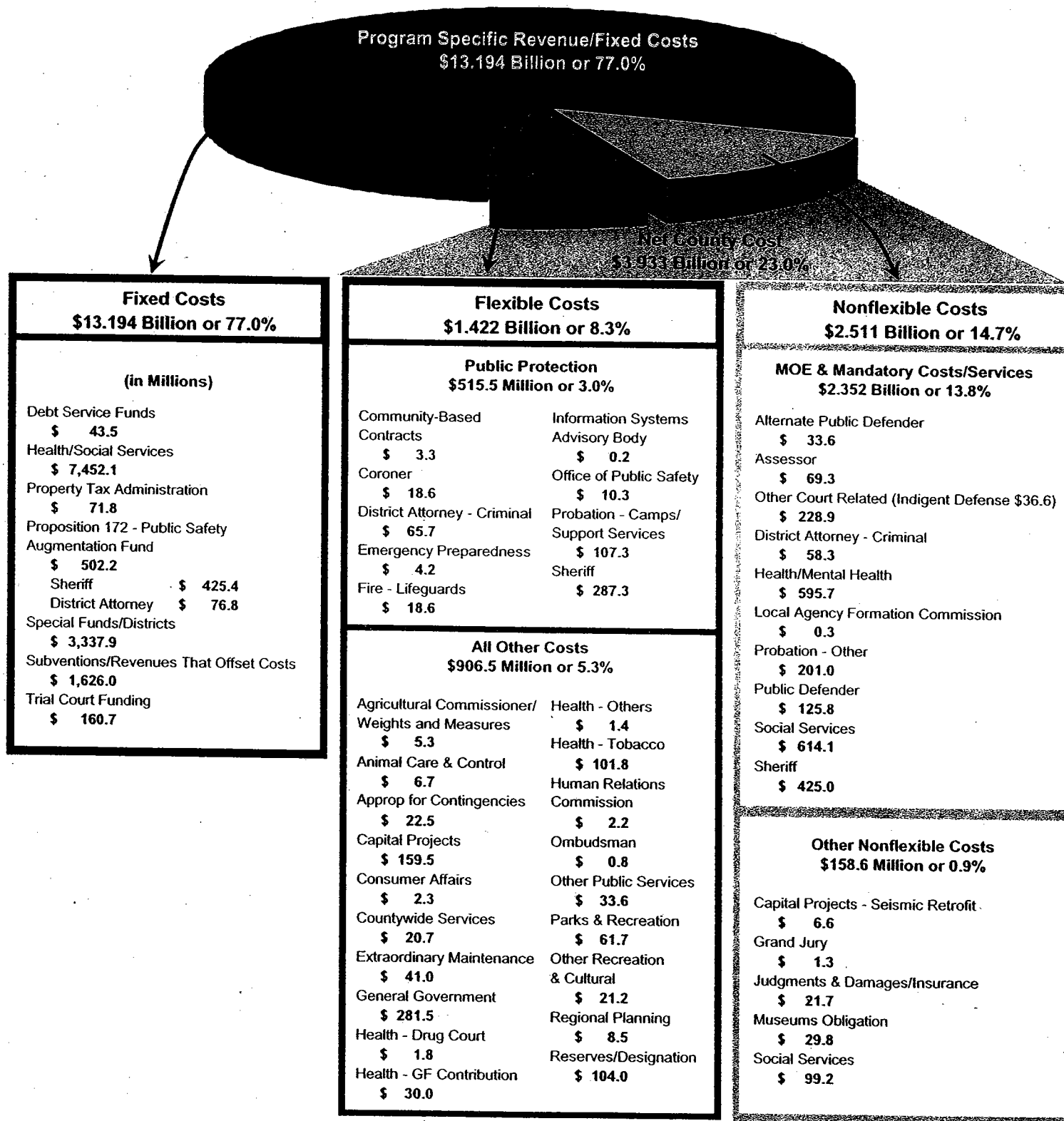
c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

Los Angeles County

2003-04 Final Adopted Budget

\$17.127 Billion*

Mandated vs. Discretionary Costs



* Excludes major interfund transfers of revenue that would artificially inflate the size of the total County budget.